

# ikeGPS

## Sales Cycle Turning Positive – 4Q24

**JAMES LINDSAY**

 James.Lindsay@forsythbarr.co.nz  
 +64 9 368 0145

**WILL TWISS**

 will.twiss@forsythbarr.co.nz  
 +64 9 368 0129

ikeGPS's (IKE) 4Q24 and FY24 performance update was in-line with our expectations, with positive outlook commentary suggesting the sales cycle is likely turning positive. Total revenue fell -31% in FY24 to ~NZ\$21.1m, driven by a steep -61% decline in Transaction revenue that was only partially offset by solid Subscription revenue growth of +22%. IKE has a net cash position of NZ\$10.2m. While 4Q24 sales was a challenging outcome, FY25 should be a significantly improved period. Management guided to >+50% growth in Subscription revenue and expects growth in Transaction revenue in FY25. The robust outlook for Subscriptions is based on the continued growth of IKE's core IKE Office Pro product and the success of the new IKE PoleForeman product, which has already achieved >NZ\$8m in total contract value. We increase our assumptions for Subscription revenues in FY25 and beyond but again temper the speed and quantum of Transactional revenues recovering. These factors counterbalance, meaning our blended spot valuation is down 1c to NZ\$0.79.

NZX Code	IKE	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$0.45	Rev (NZ\$m)	31.1	21.4	28.4	34.9	PE	n/a	n/a	n/a	n/a
Spot Valuation	NZ\$0.79 (from 0.80)	NPAT* (NZ\$m)	(7.9)	(11.7)	(4.7)	0.0	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	High	EPS* (NZc)	(4.9)	(7.3)	(2.9)	0.0	EV/EBITDA	n/a	n/a	n/a	12.1
Issued shares	160.0m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	3.5	5.6	11.0	10.1
Market cap	NZ\$72.m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	26.0k (NZ\$16k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

### What's changed?

- **Earnings:** FY24 operating EBITDA increases by +NZ\$0.8m, FY25 is flat, and FY26 falls by -NZ\$0.5m
- **Spot valuation:** Our blended spot valuation falls -1% to NZ\$0.79.

### Subscription strength continues

IKE's Subscription revenue streams demonstrated commendable ~+22% growth in FY24, underscoring its successful and ongoing programme for winning top-tier utility customers in North America. The introduction of the new IKE PoleForeman product should be instrumental in aiding future growth, with Total Contract Value (TCV) already >NZ\$8m from tier-1 electric utilities in the US market. IKE noted that it anticipates further PoleForeman contract wins in the future and suggested it 'will ultimately be the standard for structural analysis in eight of the 10 largest electric utilities in North America'. IKE has guided to >+50% Subscription revenue growth in FY25, driven by new customer wins and multi-year PoleForeman contracts. The mix shift in IKE's revenue towards Subscriptions enhances IKE's revenue quality and margin. Over the long term it could also insulate IKE from fluctuations in transactional volumes.

### Transaction challenges remain

As expected, FY24 Transactional revenue experienced a notable -61% decline, attributed to: (1) specific customer-centric issues, (2) the cyclical nature of project-based engagements, and (3) a high FY23 base due to significant customer activity over that year. Despite the downturn, IKE remains cautiously optimistic about a recovery in transaction volumes and expects growth in FY25 based on positive customer projections. There were some positive indicators in 4Q24, with Transaction revenue (NZ\$2.2m) increasing sequentially for the first time since 2Q23. Transaction volumes (~82,000) were also at the highest level seen since FY23.

### Pathway to cash breakeven maintained

IKE had NZ\$10.2m of net cash on its balance sheet at the end of FY24 as it completed cost out initiatives in 2H24 in order to maintain its timeline for achieving EBITDA and cash breakeven. We now forecast net cash to trough at ~NZ\$5.8m in FY26.

**ikeGPS Group (IKE)**
**Market Data (NZ\$)**

Priced as at 18 Apr 2024	0.45
52 week high / low	0.85 / 0.40
Market capitalisation (NZ\$m)	72.0

**Key WACC assumptions**

Risk free rate	5.00%
Equity beta	1.30
WACC	11.5%
Terminal growth	2.0%

Profit and Loss Account (NZ\$m)	2022A	2023A	2024E	2025E	2026E
Revenue	16.0	31.1	21.4	28.4	34.9
<b>Normalised EBITDA</b>	<b>(5.3)</b>	<b>(2.1)</b>	<b>(7.7)</b>	<b>(1.9)</b>	<b>5.1</b>
Depreciation and amortisation	(2.5)	(3.6)	(4.3)	(2.9)	(5.2)
<b>Normalised EBIT</b>	<b>(7.8)</b>	<b>(7.8)</b>	<b>(12.0)</b>	<b>(4.8)</b>	<b>(0.1)</b>
Net interest	(0.1)	(0.1)	0.3	0.2	0.1
Associate income	0	0	0	0	0
Tax	0	0.0	0	0	0
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>(7.9)</b>	<b>(7.9)</b>	<b>(11.7)</b>	<b>(4.7)</b>	<b>0.0</b>
Abnormals/other	0	0	0	0	0
<b>Reported NPAT</b>	<b>(7.9)</b>	<b>(7.9)</b>	<b>(11.7)</b>	<b>(4.7)</b>	<b>0.0</b>
Normalised EPS (cps)	(4.9)	(4.9)	(7.3)	(2.9)	0.0
DPS (cps)	0	0	0	0	0

Growth Rates	2022A	2023A	2024E	2025E	2026E
Revenue (%)	56.6	93.9	-31.1	32.9	22.7
EBITDA (%)	n/a	n/a	n/a	n/a	n/a
EBIT (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT (%)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (%)	n/a	n/a	n/a	n/a	n/a
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

Cash Flow (NZ\$m)	2022A	2023A	2024E	2025E	2026E
<b>EBITDA</b>	<b>(5.3)</b>	<b>(2.1)</b>	<b>(7.7)</b>	<b>(1.9)</b>	<b>5.1</b>
Working capital change	(1.7)	(1.2)	(0.5)	2.1	(1.1)
Interest & tax paid	(0.1)	(0.1)	0.3	0.2	0.1
Other	0.5	0.9	4.0	0	0
<b>Operating cash flow</b>	<b>(6.6)</b>	<b>(2.5)</b>	<b>(4.0)</b>	<b>0.3</b>	<b>4.1</b>
Capital expenditure	(3.6)	(5.1)	(3.5)	(4.4)	(4.5)
(Acquisitions)/divestments	0	0	0	0	0
Other	(0.4)	0.1	(0.1)	(0.1)	(0.1)
<b>Funding available/(required)</b>	<b>(10.6)</b>	<b>(7.5)</b>	<b>(7.6)</b>	<b>(4.1)</b>	<b>(0.5)</b>
Dividends paid	0	0	0	0	0
Equity raised/(returned)	23.1	0	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>12.5</b>	<b>(7.5)</b>	<b>(7.6)</b>	<b>(4.1)</b>	<b>(0.5)</b>

Balance Sheet (NZ\$m)	2022A	2023A	2024E	2025E	2026E
Working capital	4.2	5.4	5.9	3.8	4.9
Fixed assets	1.8	2.8	2.7	2.7	2.7
Intangibles	14.1	13.1	12.6	12.3	11.7
Right of use asset	0.2	0	0.0	0.0	(0.0)
Other assets	1.8	1.6	0.7	0.7	0.7
<b>Total funds employed</b>	<b>22.1</b>	<b>22.9</b>	<b>22.0</b>	<b>19.6</b>	<b>20.1</b>
Net debt/(cash)	(24.4)	(18.0)	(10.5)	(6.3)	(5.8)
Lease liability	0	0	0.0	0.0	(0.0)
Other liabilities	7.0	7.0	7.1	7.1	7.1
Shareholder's funds	39.4	33.9	25.4	18.9	18.8
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>22.1</b>	<b>22.9</b>	<b>22.0</b>	<b>19.6</b>	<b>20.1</b>

\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend\*\* Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at [www.forsythbarr.co.nz/corporate-news-events/cesg-report](http://www.forsythbarr.co.nz/corporate-news-events/cesg-report)

**Spot valuation (NZ\$)**

DCF	0.79
EV/Sales relative	0.85

**DCF valuation summary**

Total firm value	109.4
(Net debt)/cash	10.5
Less: Capitalised operating leases	-3.0
Value of equity	116.8

Valuation Ratios	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	3.4	1.7	2.7	2.2	1.8
EV/EBITDA (x)	n/a	n/a	n/a	n/a	12.1
EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
PE (x)	n/a	n/a	n/a	n/a	>100x
Price/NTA (x)	2.8	3.5	5.6	11.0	10.1
Free cash flow yield (%)	-14.6	-10.9	-10.8	-6.0	-1.0
Adj. free cash flow yield (%)	-9.6	-3.7	-5.8	0.1	5.3
Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Capital Structure	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	n/a	n/a	39.1	27.5	0.6
Interest cover EBITDA (x)	n/a	n/a	25.2	11.0	n/a
Net debt/ND+E (%)	-161.5	-113.5	-70.2	-50.1	-44.1
Net debt/EBITDA (x)	4.6	8.6	1.3	3.3	n/a

Key Ratios	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	-16.1	-17.9	-35.7	-17.5	-0.2
Return on equity (%)	-19.9	-23.2	-46.1	-24.7	0.2
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	-33.3	-6.8	-36.2	-6.8	14.6
EBIT margin (%)	-48.6	-25.0	-56.1	-17.0	-0.2
Capex to sales (%)	22.3	16.5	16.6	15.5	13.0
Capex to depreciation (%)	360	378	215	5,317	213
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	0	0	0	0	0

Operating Performance	2022A	2023A	2024E	2025E	2026E
Sale of products revenue (\$m)	6.4	6.5	6.5	7.6	8.4
IKE Platform revenue (\$m)	8.1	22.1	12.2	16.5	20.6
IKE Structural revenue (\$m)	1.1	1.8	2.0	3.9	5.4
Spike revenue (\$m)	0.4	0.4	0.4	0.4	0.3
Other revenues (\$m)	0.1	0.3	0.3	0.1	0.1
<b>Total Revenues (\$m)</b>	<b>16.0</b>	<b>31.1</b>	<b>21.4</b>	<b>28.4</b>	<b>34.9</b>
Sale of products % of revenues	40.2	21.0	30.7	26.9	24.2
IKE Platform % of revenues	50.5	71.9	58.0	58.3	59.2
IKE Structural % of revenues	7.0	6.0	9.6	13.6	15.5
Spike % of revenues	2.2	1.2	1.7	1.2	1.0
Sale of products gross margin (%)	72.3	73.4	74.4	74.4	75.0
IKE Platform gross margin (%)	48.8	43.1	46.0	56.5	60.0
IKE Structural gross margin (%)	100.0	100.0	100.0	100.0	100.0
Spike Gross margin (%)	51.0	62.2	62.2	62.2	62.2
<b>Overall Gross margin (%)</b>	<b>61.9</b>	<b>53.1</b>	<b>60.2</b>	<b>67.3</b>	<b>69.9</b>

## Earnings revisions

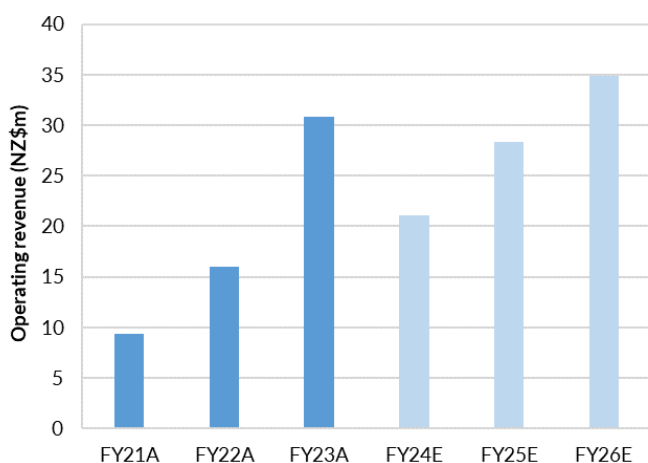
We revise our FY24 estimates to align with IKE's trading update. In FY25 and FY26 we now expect an even more tempered recovery in Transaction revenue, which sees revenue fall despite stronger Subscription growth assumptions. However, the shift in the sales mix towards higher-margin Subscriptions provides some insulation. Our EBITDA estimate is flat in FY25 and falls only -NZ\$0.5m in FY26.

Figure 1. Earnings revisions (NZ\$m)

	FY24			FY25			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Operating Revenue</b>	21.3	21.1	-1%	29.7	28.4	-5%	38.5	34.8	-9%
Cost of sales	(8.3)	(8.4)	+1%	(10.1)	(9.3)	-8%	(12.9)	(10.5)	-18%
<b>Gross profit</b>	13.0	12.7	-2%	19.6	19.1	-2%	25.6	24.3	-5%
Total other income	(0.6)	0.3	n/a	0.1	0.1	n/a	0.1	0.1	n/a
'Support costs'/Other operating expenses	(1.1)	(1.1)	+0%	(1.2)	(1.2)	+0%	(1.2)	(1.2)	+0%
Sales & marketing expenses	(7.5)	(7.4)	-1%	(7.4)	(7.1)	-5%	(8.1)	(7.3)	-9%
Research & engineering expenses	(9.2)	(9.1)	-1%	(9.2)	(9.1)	-1%	(9.2)	(9.1)	-1%
'Corporate Costs'/General & Admin expenses	(7.4)	(7.4)	+0%	(6.6)	(6.6)	+0%	(6.8)	(6.8)	+0%
Total operating expenses	(25.8)	(24.7)	n/a	(24.4)	(23.9)	n/a	(25.3)	(24.4)	n/a
<b>Operating profit (loss)</b>	(12.8)	(12.0)	n/a	(4.8)	(4.8)	n/a	0.4	(0.1)	n/a
Finance costs	0.3	0.3	n/a	0.1	0.2	n/a	(0.0)	0.1	n/a
<b>Profit (loss) before income tax</b>	(12.5)	(11.7)	n/a	(4.7)	(4.7)	n/a	0.3	0.0	n/a
Income tax	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
<b>Net Profit (Loss) for the Year</b>	(12.5)	(11.7)	n/a	(4.7)	(4.7)	n/a	0.3	0.0	n/a
<b>Reconciliation Operating profit (loss) to EBITDA</b>									
NPAT (\$m)	(12.5)	(11.7)	n/a	(4.7)	(4.7)	n/a	0.3	0.0	n/a
add back Income tax paid (\$m)	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
add back Finance costs paid (\$m)	(0.3)	(0.3)	n/a	(0.1)	(0.2)	n/a	0.0	(0.1)	n/a
add back Depreciation (\$m)	1.5	1.5	n/a	0.0	0.0	n/a	2.2	2.1	n/a
add back Lease depreciation (\$m)	0.1	0.1	n/a	0.1	0.1	n/a	0.0	0.0	n/a
add back Amortisation (\$m)	2.6	2.6	n/a	2.8	2.8	n/a	3.1	3.0	n/a
remove adjustments (\$m)	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
<b>Operating EBITDA (\$m)</b>	(8.5)	(7.7)	n/a	(1.9)	(1.9)	n/a	5.6	5.1	n/a

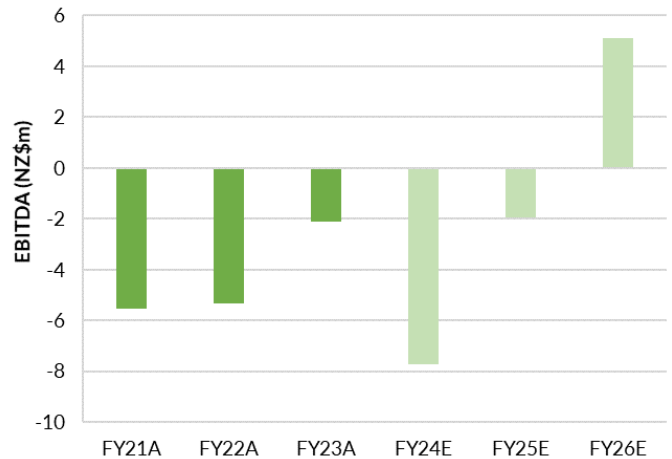
Source: Forsyth Barr analysis

Figure 2. IKE – Operating revenues (NZ\$m)



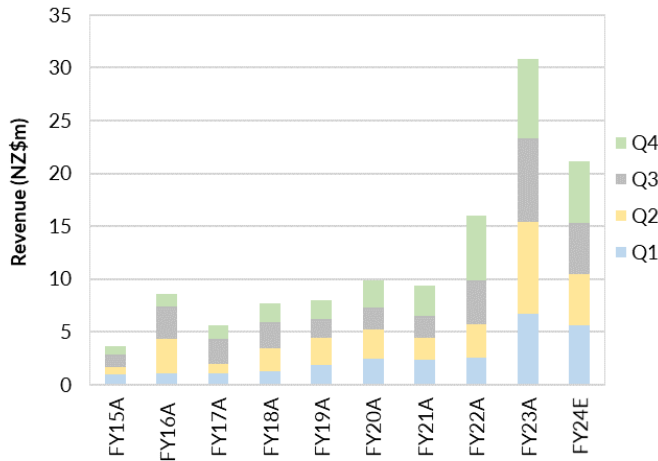
Source: Company data, Forsyth Barr analysis

Figure 3. IKE – EBITDA (NZ\$m)



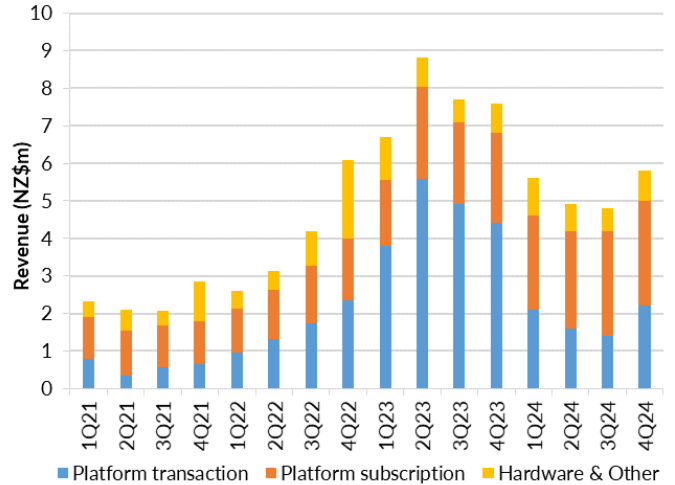
Source: Company data, Forsyth Barr analysis

**Figure 4. IKE – Quarterly revenue including 4Q24 estimate**



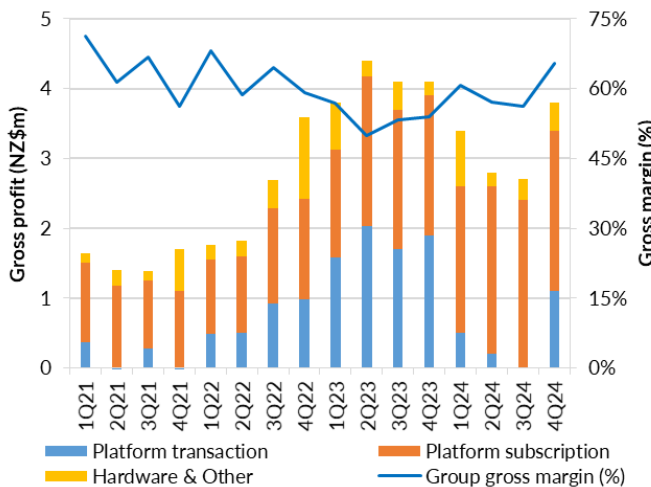
Source: Company, Forsyth Barr Analysis

**Figure 5. IKE – Quarterly revenue by segment**



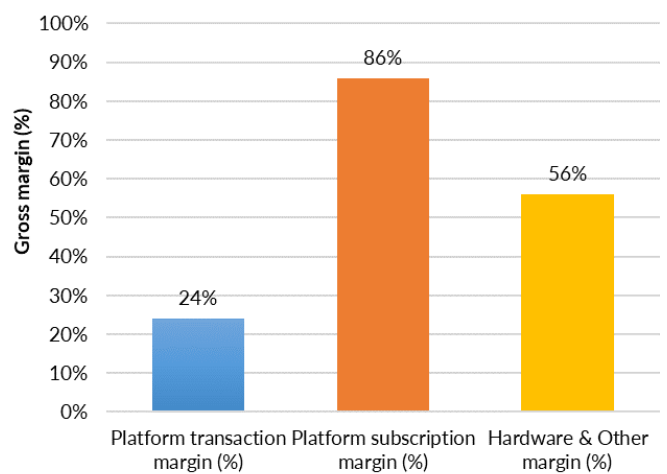
Source: Company, Forsyth Barr Analysis

**Figure 6. IKE – Quarterly gross profit by segment**



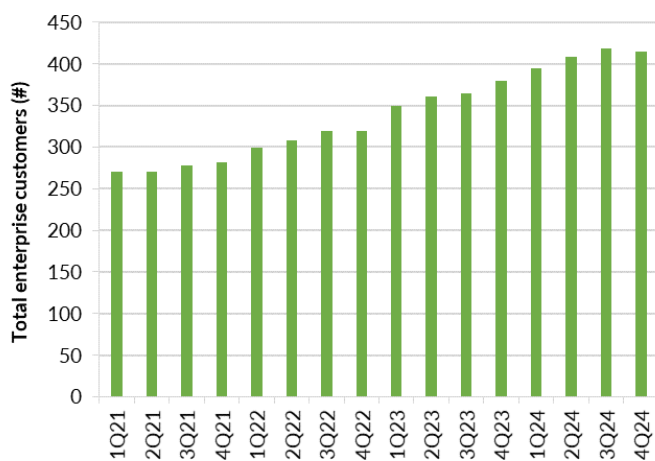
Source: BVP, Forsyth Barr analysis

**Figure 7. IKE – Gross margin by segment FY24 (%)**



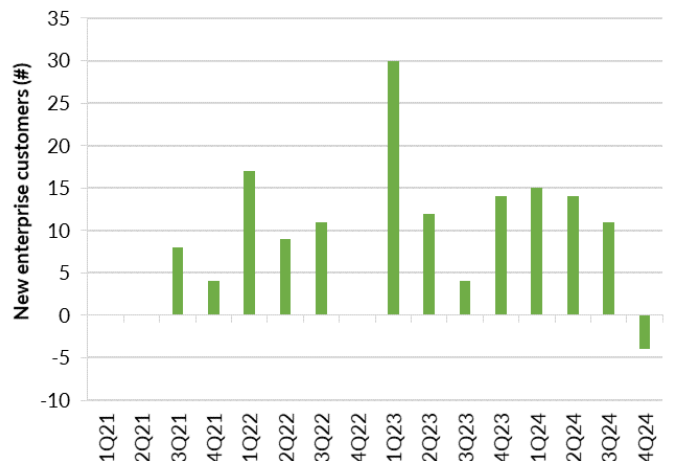
Source: BVP, Forsyth Barr analysis

**Figure 8. IKE – Total enterprise customers by quarter**



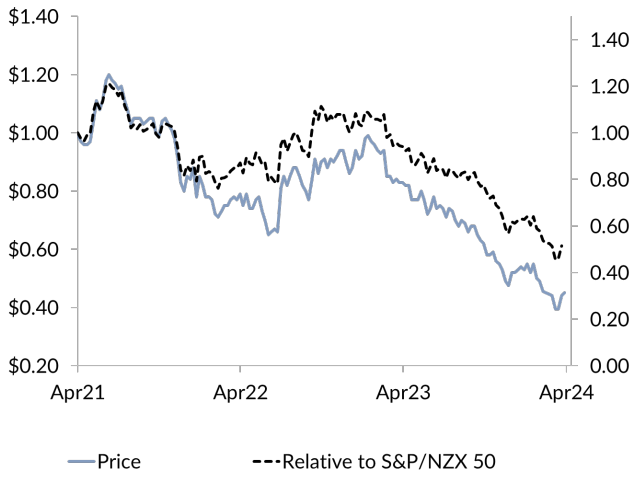
Source: Company, Forsyth Barr Analysis

**Figure 9. IKE – Net enterprise customer growth by quarter**



Source: Company, Forsyth Barr Analysis

**Figure 10. Price performance**



Source: Forsyth Barr analysis

**Figure 11. Substantial shareholders**

Shareholder	Latest Holding
Wilson Family Trust	17.5%
Scobie Ward	8.3%
TEK Trust	7.2%
K & M Douglas Trust	6.1%

Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 12. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect IKE's balance date - March)										
				2024E	2025E	2024E	2025E	2024E	2025E	2025E
<b>ikeGPS</b>	<b>IKE NZ</b>	<b>NZ\$0.45</b>	<b>NZ\$72</b>	<b>&lt;0x</b>	<b>&lt;0x</b>	<b>&lt;0x</b>	<b>&lt;0x</b>	<b>&lt;0x</b>	<b>&lt;0x</b>	<b>0.0%</b>
Autodesk Inc	ADSK US	US\$236.98	US\$50,694	51.6x	28.9x	37.6x	24.6x	41.5x	23.6x	n/a
Altair Engineering Inc - A	ALTR US	US\$82.10	US\$6,817	<0x	62.6x	>75x	43.0x	>75x	45.5x	n/a
Ansys Inc	ANSS US	US\$334.20	US\$29,081	52.2x	33.7x	34.4x	26.0x	41.8x	26.9x	n/a
Bentley Systems Inc-Class B	BSY US	US\$48.17	US\$15,771	46.4x	46.5x	49.3x	35.4x	65.8x	37.0x	0.4%
Dassault Systemes Se	DSY FP	€39.25	€52,541	44.3x	29.5x	27.5x	22.4x	38.2x	25.4x	0.7%
Hexagon Ab-B Shs	HEXAB SS	€124.30	€336,291	>75x	>50x	>75x	>75x	>75x	>75x	0.1%
Rockwell Automation Inc	ROK US	US\$284.82	US\$32,638	23.8x	22.6x	18.0x	17.6x	20.7x	19.2x	1.8%
Roper Technologies Inc	ROP US	US\$535.83	US\$57,346	38.4x	29.1x	24.4x	22.4x	35.4x	31.3x	0.6%
Trimble Inc	TRMB US	US\$60.54	US\$14,874	41.6x	21.7x	22.9x	18.4x	34.9x	19.9x	n/a
<b>Compco Average:</b>				<b>42.6x</b>	<b>34.3x</b>	<b>30.6x</b>	<b>26.2x</b>	<b>39.7x</b>	<b>28.6x</b>	<b>0.7%</b>
<b>EV = Mkt cap+net debt+lease liabilities+min interests-investments</b>				<b>IKE Relative:</b>		<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>-100%</b>

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (IKE) companies fiscal year end

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